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October 17, 2005

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Kristin K. Mayes

Re: APS Application for Authorization to Acquire Out-of-State Renewable Resources
Docket No. E-01345A-05-0675

Dear Colleagues:

In her letter of October 4, Commissioner Mayes expressed concern about the preponderance of out-of-state contracts resulting from APS' renewable energy RFP and suggested that APS' application for approval be the context for discussing rejected in-state projects whose cost was more than 125% of market price of conventional energy. These issues prompt me to make the following points:

1. The parameters of the RFP, including the 125% cost limit, were established in Decision No. 67744 approving the rate case settlement. Allowing more costly projects is outside the scope of the Commission's deliberations on the current application.
2. Anyone familiar with the costs of various renewable resources and their current availability in Arizona could have predicted the lack of acceptable in-state bids in response to APS' RFP.
3. Reasonably assuming a \$66/MWh busbar cost for electricity from combined cycle generation, a 15% over-market cost of renewables, and the out-of-state purchase of 639 GWh per year, the cost of the mandated renewable power purchase to ratepayers would be \$6.3 million per year, or \$31.6 million over five years. Any suggestion that this already-substantial premium should be increased for the sake of subsidizing less economical in-state resources would be very unkind to the ratepayers.

Sincerely,

A handwritten signature in cursive script that reads "Mike".

Mike Gleason
Commissioner

c: parties to the docket